Annual Report 2003

FOR THE YEAR ENDED MARCH 31, 2003

namco

Growing stronger AS WE CONQUER

Profile

Namco Ltd. traces its origins to the installation of two coin-operated horses in a department store in 1955. Ever since, Namco has consistently led the way in the development of amusement facilities, coin-operated game machines and theme parks—helping people experience the fun they have always dreamed of through numerous forms of entertainment. In recent years, rapid advances in information technology have significantly transformed entertainment equipment, as well as how and where people choose to play. True to its vision of being a highly creative organization, Namco is developing new modes of entertainment from many angles, giving free rein to its adaptable and wide-ranging product development capabilities. Namco is committed to meeting new challenges with its sights set on expanding its presence in the realm of global entertainment.

Contents

Forward-Looking Statements

This annual report contains forward-looking statements about the future plans, strategies, beliefs and performance of Namco Limited and subsidiaries. These forward-looking statements are not historical facts. They are expectations, estimates, forecasts and projections based on information currently available to the company and are subject to a number of risks, uncertainties and assumptions, which, without limitation, include economic trends, competition in markets where the Company is active, personal consumption, market demand, the tax system and other legislation. As such, actual results may differ materially from those projected.

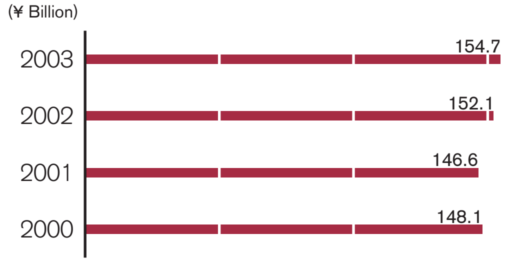
Six-year Summary

	Millions of yen						Thousands of U.S. dollars
	1998	1999	2000	2001	2002	2003	2003
For the year:							
Net sales	¥145,761	¥145,517	¥148,066	¥146,554	¥152,136	**¥154,777**	**$1,306,135**
Cost of sales	111,771	111,988	113,132	120,738	117,283	**117,248**	**989,434**
Selling, general and administrative expenses (Note 11)	22,218	25,258	28,214	28,682	28,720	**28,059**	**236,785**
Operating income (loss)	11,772	8,271	6,720	(2,866)	6,133	**9,470**	**79,916**
Income (loss) before income taxes	9,337	7,914	12,671	(9,196)	2,952	**7,686**	**64,861**
Income taxes	5,173	4,348	6,383	(3,196)	917	**3,570**	**30,127**
Net income (loss)	4,164	3,566	6,288	(6,000)	2,035	**4,116**	**34,734**
At year–end:							
Total assets:	142,992	144,120	168,567	138,962	144,140	**143,214**	**1,208,557**
Current assets	65,513	64,713	73,266	51,261	61,346	**68,089**	**574,591**
Fixes assets	77,479	79,407	95,301	87,701	82,794	**75,125**	**633,966**
Current liabilities	43,259	39,174	38,761	30,275	29,659	**35,920**	**303,122**
Long-term liabilities	13,120	13,052	12,365	9,383	16,734	**8,894**	**75,055**
Shareholders' equity:	84,355	89,566	99,774	91,646	96,133	**96,647**	**815,587**
Common stock	25,147	26,997	27,369	27,369	27,369	**27,369**	**230,962**
Retained earnings	35,365	37,143	46,383	39,279	41,251	**43,429**	**366,489**
Per share of common stock:	Yen						U.S. dollars
Net income (loss):							
Primary	¥ 78.60	¥ 65.82	¥ 115.00	¥ (109.09)	¥ 36.95	**¥ 72.35**	**$ 0.61**
Fully diluted	72.91	62.24	109.06	–	35.97	**70.12**	**0.59**
Cash dividends applicable to the year	30.00	30.00	30.00	15.00	17.00	**30.00**	**0.25**
Number of shares outstanding (thousands)	53,625	54,828	55,068	55,087	55,087	**55,087**	

Note: U.S. dollar amounts have been translated, for convenience only, at the exchange rate of ¥118.5=U.S.$1.

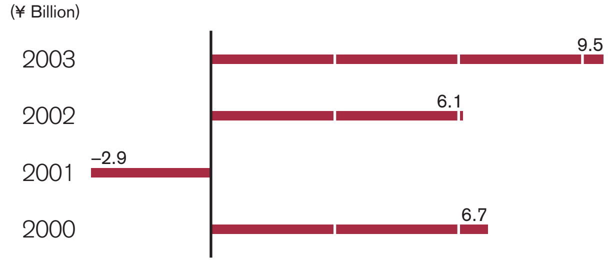
NET SALES

(¥ Billion)



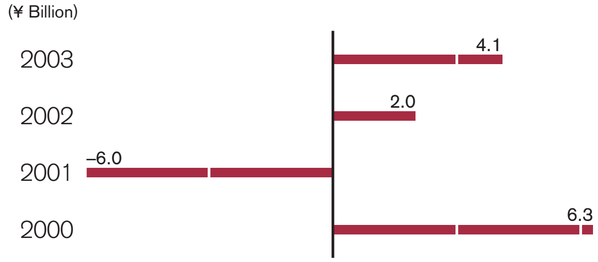
OPERATING INCOME

(¥ Billion)



NET INCOME

(¥ Billion)



TOTAL ASSETS

(¥ Billion)

To Our Shareholders

MESSAGE FROM THE CHAIRMAN —NAMCO: A HIGHLY CREATIVE ORGANIZATION PIONEERING A NEW ERA—

An Era of Fierce Global Competition

Ever since its establishment in 1955, Namco has continually transformed entertainment into viable businesses. Advances in information technology over the past half-century have revolutionized how people spend their leisure time, spawning increasingly diverse and sophisticated forms of entertainment. In recent years, the amusement industry, especially the videogame market, has entered a period of profound change. At the same time, the intensifying forces of competition and realignment are reshaping our industry, as evidenced by the recent merger of Enix Corporation and Square Co., Ltd. Making matters more difficult, these developments have been set in motion not only in Japan but also throughout the rest of the world. At Namco, we are exploring various avenues to becoming a standout performer in our industry, including through collaboration with partner companies.

Unchanging Principles

Even in these times of rapid change and fierce competition, our guiding principles will remain constant. These principles are premised on three beliefs. One is that "to play is human," a sentiment expressed in the Latin phrase *homo ludens* by Dutch historian Johan Huizinga. The second is that the 21st century will see the flowering of an "Era of Spirituality" —a time when people move beyond the pursuit of knowledge and emotional fulfillment to achieve a more spiritually satisfying existence. The third belief is that the tertiary industry sector has spawned sectors of a higher order—the fourth sector appealing to the intellect, the fifth to emotions; on to the sixth sector, which stimulates greater consciousness and spiritual awareness. In my view, these sectors offer successively higher value to people.

Our entertainment businesses not only have worldwide appeal, but also have the potential to find many applications in all stages of people's lives, from the fields of education to medicine and nursing care. No matter how our circumstances may change, our guiding principles will remain constant, as our commitment to them grows ever stronger.

Pursuing the Essence of Namco: The Willingness to Make Personal Choices

Recently, Japan has experienced a boom in restaurants serving truly exceptional dishes. Surprisingly, ramen noodles prepared by master chefs have found a cult following. Nowadays, it is no longer unusual to see people willing to spend anywhere from one to four hours or more waiting in line, just for the chance to eat a bowl of ramen noodles at a highly rated restaurant. For me, this is indicative of a shift in values. Balancing the latest trends with time and cost outlays, each individual is choosing his or her own brand of entertainment to achieve personal fulfillment, be it in a single bowl of ramen. Given this change in values, the key questions for us are how to best respond to this emerging willingness of consumers to make highly individual personal choices, and what kinds of products to manufacture.

We have described ourselves as "a creator of new entertainment" and as "a highly creative organization." Fundamental to our identity is to be a source of new trends and lead the way, as a creative force, into a new era.

MASAYA NAKAMURA
CHAIRMAN

September 2003

Masaya Nakamura
Chairman

Masaya Nakamura

Overview of Operating Environment and Results

In recent years, the amusement industry is contending with slower market growth. The operation of amusement facilities and the sales of coin-operated amusement equipment are two areas where measures to improve earnings had a significant bearing on corporate operating results. Also, many more companies aim to expand sales of game software for home use in overseas markets, in response to Japan's maturing market. These companies are increasingly turning to mergers and business alliances to facilitate this process.

In this climate, Namco pressed ahead with structural reforms to eliminate factors restraining growth, implementing the following eight key measures since May 2002:

1. Strengthen the Home Videogame Software business;
2. Reinforce the Coin-Operated Game Machine business;
3. Improve the profitability of amusement facility operations;
4. Move from emphasizing to strengthening the Web & Mobile Content business;
5. Enter the market for LCD parts for pachinko and pachislot machines;
6. Create in-house systems for developing and incubating new businesses that have the potential to become mainstay businesses;
7. Raise the efficiency of Head Office functions; and
8. Upgrade the Corporate Strategic Planning Office.

Namco has also adopted a new organizational structure that encourages in-house companies to work autonomously to maximize collective earnings. This structure consists of the Corporate Headquarters, the Corporate Office, five in-house companies and the Incubation Center. Related growth initiatives have helped to further strengthen our organization.

For fiscal 2003, ended March 31, 2003, net sales climbed ¥2,640 million to ¥154,777 million, ordinary income increased ¥4,112 million to ¥8,777 million, and net income increased ¥2,080 million to ¥4,115 million.

New Medium-term Management Plan

We have partly revised the medium-term management plan launched in the previous fiscal year, to reflect recent operating results and developments in our business environment. The plan has been restarted in the current fiscal year.

The main points of the new medium-term management plan are as follows.

Aiming to Create High-Value-Added Businesses

1) Improve our stock price and dividends in the interests of shareholders;
2) Maximize collective earnings across the entire Namco Group by emphasizing group-wide management; and
3) Achieve ROE of at least 15%

Fundamental Strategy for Creating High-Value-Added Businesses

1) Structurally reform Namco's three primary businesses

Resolve the structural issues of the three primary businesses, and transform them into highly profitable businesses

1. Home Videogame Software Business Namco will work to capture greater market share worldwide and improve profitability. Key to this will be allocating resources efficiently into strategic fields to strengthen planning, product development, sales and organizational capabilities.
2. Coin-Operated Game Machines Business
   Namco will implement R&D strategies aimed at developing products that provide users with maximum entertainment value, while bolstering profitability.
3. Amusement Facility Operations
   Namco will improve profitability in this segment by closing unprofitable facilities in Japan, the U.S., Europe and Asia, while improving the quality of store operations.

2) Developing and Cultivating New Businesses; Reinforcing the P-7 and WMC Companies

Namco will grow both the pachinko and pachislot and the Web & Mobile Content businesses, transforming them into the company's fourth and fifth pillars of operations, after its three primary businesses.

Namco's Incubation Center will develop and cultivate new businesses, and highly profitable businesses will become independent in-house companies. We will pour energy especially into accelerating the development of the human services business, which leverages our extensive experience in the field of physical rehabilitation.

3) Establish support systems and framework for business strategies

1. Institute a new personnel system that reenergizes our organization
   While working to upgrade personnel policies at the parent company, Namco will establish personnel systems that motivate employees, the bedrock of the Namco Group, and reward their efforts.

Consolidated Income and Loss Plan	Millions of yen		
	2003	2004*	2005*
Net sales	¥154,777	¥164,800	¥188,900
Operating profit	9,470	11,400	17,900
Operating income	8,777	10,700	17,300
Net income	4,115	5,800	10,000

Plan by Consolidated Segment	2003	2004*	2005*
Net sales			
Amusement facility operations	¥ 75,900	¥ 76,800	¥ 80,300
Coin-operated game machines	16,254	21,400	24,100
Home videogame software	42,475	42,600	55,900
Restaurant operations	3,826	5,400	6,800
Movies and graphics	10,131	10,800	11,300
Other	6,188	7,800	10,500
Total	¥154,777	¥164,800	¥188,900
Operating income			
Amusement facility operations	¥ 4,773	¥ 6,800	¥ 7,600
Coin-operated game machines	1,180	2,400	3,000
Home videogame software	9,196	7,000	11,400
Restaurant operations	34	200	500
Movies and graphics	(411)	200	400
Other	(1,022)	(100)	(5,600)
Corporate items or deletions	(4,281)	(5,100)	(5,600)
Total	¥ 9,470	¥ 11,400	¥ 17,900

* est.

2. Upgrade information systems
   Namco will establish company-wide real-time information systems that tie into company strategies to speed management decision making.
3. Innovate Head Office structure
   Namco will transform its head office into a streamlined and agile organization delegating authority and transferring operations. The goal is to transform the Head Office into a profit center in its own right.

Steady Progress With Structural Reforms and Creating High-Value-Added Businesses

The reform plan formulated and implemented in the previous fiscal year is gradually producing benefits. In the Home Videogame Software business, for example, business reforms helped spawn the new hit software titles *Taiko no Tatsujin Tatakon de Dodongadon* and *Tales of Destiny 2*, while *Tekken 4* proved highly popular in North America and Europe. In the Coin-Operated Game Machine business, Namco focused on developing products like *Taiko no Tatsujin* that satisfy market needs. The Amusement Facility Operations business closed a total of 75 facilities, including 35 domestic and 40 overseas facilities, lifting the operating income margin 3.6 percentage points to 6.3%.

Recapturing the essence of Namco is our top priority. This means reshaping our corporate structure into one that maximizes earnings by leveraging the advantages of our value chain. This value chain channels the precious resources generated by user-driven amusement facility operations, such as funds and strategic information, into the efficient development of home videogame software and coin-operated game machines. It is imperative that we once again reassert ourselves as a highly creative organization in line with this scenario for growth.

KYUSHIRO TAKAGI
PRESIDENT AND CHIEF EXECUTIVE OFFICER

September 2003

Kyushiro Takagi
President and Chief Executive Officer

Kyushiro Takagi

Growing stronger as we conquer . . .

AT A GLANCE

COIN-OPERATED GAME MACHINES

AMUSEMENT (AM) COMPANY
P-7 COMPANY
THREE OTHER COMPANIES

AMUSEMENT FACILITY OPERATIONS

ENTERTAINMENT (ET) COMPANY
EIGHT OTHER COMPANIES

MOVIES AND GRAPHICS

NIKKATSU CORPORATION

HOME VIDEO GAME SOFTWARE

CONTENT & TECHNOLOGY (CT) COMPANY
WEB & MOBILE CONTENTS (WMC) COMPANY
THREE OTHER COMPANIES

RESTAURANT OPERATIONS

ITALIAN TOMATO LTD.

OTHER

INCUBATION CENTER
SIX OTHER COMPANIES

Research and Development

Namco conducts a broad range of research and development activities. This includes basic research on topics such as cutting-edge 3D computer graphics, and video and sound effects. Our R&D program is also focused on coin-operated game machines, home videogame software, content for network technologies and much more.

Expanding Growing Businesses

MISSION I

Our first mission is to further expand growing businesses. Success will depend on enlarging the Home Videogame Software Business by improving the performance of the Content & Technology (CT) Company. Home Videogame Software is our second largest business, next to Amusement Facility Operations, but is our largest source of earnings. Concentrating resources on this key business domain, we are moving on the offensive to sharpen planning and product development skills, sales and organizational capabilities, with progress on these measures outlined below.

CT Company (Home Video Game Software)

Namco's mission in the home videogame software market is fivefold. The first priority is to consistently supply long-selling software titles and revive our operations. Second is the creation of new high-quality franchises. Third is reinforcing software titles with worldwide appeal. The fourth priority is to advance our media-mix strategy and enhance jointly produced titles. The fifth is to meet the challenge of developing software titles for emerging business domains such as for networks and new devices. At the same time, Namco will work to maximize earnings by seizing on emerging opportunities like the launch of next-generation game platforms scheduled for fiscal 2006, ending March 31, 2006. These include the PlayStation 3, Xbox 2 and other new next-generation consoles. Another key development will be to expand the network business. Our target is to achieve software sales of 16.4 million units in fiscal 2005.

CT COMPANY

Moving on the Offensive

1) Sharpen Planning and Product Development Skills

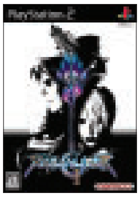
One imperative for success is to strengthen our market-driven approach to planning and product development by researching and carrying out surveys of our targeted markets. Under current market conditions, the CT Company is implementing a strategy targeting a broad audience and aimed at much more than merely enlarging our portfolio of software titles. This strategy aims to produce more full-scale epic software titles and media-mix titles, as well as titles that present new technical challenges for Namco. The key to success is to capture a large share of overseas markets with numerous software titles supported by outstanding content with worldwide appeal. Namco will strengthen collaboration with overseas bases, especially in the North American market where rapid growth is expected. The goal is to make Namco more competitive by developing products tailored precisely to local market needs. To accomplish this goal, we are working to make product development more efficient by instituting flexible hiring policies and stepping up outsourcing. Enhancing our management system in this way will pave the way for an agile product development framework.

Progress in Fiscal 2003:

The CT Company enlarged its product development force to 817 employees as of March 31, 2003, with plans for additional increases to 1,204 employees by March 31, 2005, including personnel at software development subsidiaries. That said, ever mindful of the approaching peak in the lifecycles of today's game consoles, hiring will mainly be based on temporary or project-specific employment contracts. This will minimize risk, while giving the CT Company a stronger and more flexible product development force.

The CT Company aims to use more outsourcing companies for software development. In Japan, in addition to approximately 10 outsourcing companies used at present, the CT Company is negotiating with seven to eight companies to expand its outsourcing network. Our strategy is aimed at creating a second and third company just as successful as Monolith Software Inc. or Namco Tales Studio Ltd. Overseas, the CT Company outsources software development to around six North American and European companies. Additional plans call for carrying out software development at our bases in Europe and expanding outsourcing to local software companies as well.

TAIKO NO TATSUJIN DOKI! SHINKYOKU DARAKE NO HARU MATSURI



SOUL CALIBUR II

NECCHU PRO BASEBALL 2003

2) Strengthen Organizational Capabilities

In May 2002, Namco adopted a flat organizational structure based on an in-house company system to speed decision making. Other key steps included the establishment of the Strategic Planning Group focused on strategic planning of our product lineup and the introduction of the Producer System. Under this system, a single producer is made responsible and given authority to oversee all stages of a project, from budget management to delivery schedules, quality control, operations, product development and sales. In this manner, we hope to further improve the quality of individual software titles.

Progress in Fiscal 2003:

To strengthen cooperation on a worldwide scale, the CT Company began holding global product lineup conferences regularly. This gives us the opportunity to work in closer cooperation with affiliated and partner companies in

Japan, North America, Europe and Asia in many aspects of our operations. The aim is to coordinate and advance product planning, development, production, sales promotion and sales in line with our hardware, regional, user and genre strategies. Furthermore, the CT Company has established a framework for effectively managing its growing product development force, to enhance the efficiency of product development and upgrade skills. We will also promote greater use of outsourcing companies by improving the way we manage outsourced production.

3) Reinforcing Sales Capabilities

The CT Company reinforced its sales network in the North American market, which accounted for 44% of total unit software sales in the fiscal year ended March 31, 2003. The aim is to expand sales further by developing quality products that match the home culture of this market. The CT Company will also focus on its media-mix strategy, to increase unit software sales and create high-valued-added titles. Under this strategy we will create games that incorporate other companies' popular characters, apply our own characters to media other than videogames, and collaborate with companies in different industries. Through these measures, the CT Company hopes to make users more familiar with the games' stories and characters through diverse media, thereby increasing demand for its videogames.

TALES OF DESTINY 2

DEAD TO RIGHTS

Progress in Fiscal 2003:

The CT Company achieved software sales of 12.3 million units worldwide in fiscal 2003. In the fiscal year ending March 2005, the final year of our medium-term management plan, we aim to increase software sales to 16.4 million units and rapidly expand our market share worldwide. Namco has signed contracts with five companies to carry out collaborative projects, including media-mix initiatives. Plans call for initiating more projects of this kind.

SOUL CALIBUR II—SOPHITIA

NAMCO HAS SUCCESSFULLY ADAPTED THE ARCADE GAME SOUL CALIBUR II, A TITLE THAT SPAWNED THE GENRE OF 3D WEAPONS-BASED FIGHTING GAMES, FOR HOME USE. THE IMPOSING SOUL CALIBUR II UNIVERSE AND ITS DISTINCTIVE CAST OF CHARACTERS ARE ALL FAITHFULLY RECREATED ON THE HOME VIDEO GAME CONSOLE VERSION.

MISSION 2

Restructuring Unprofitable Businesses

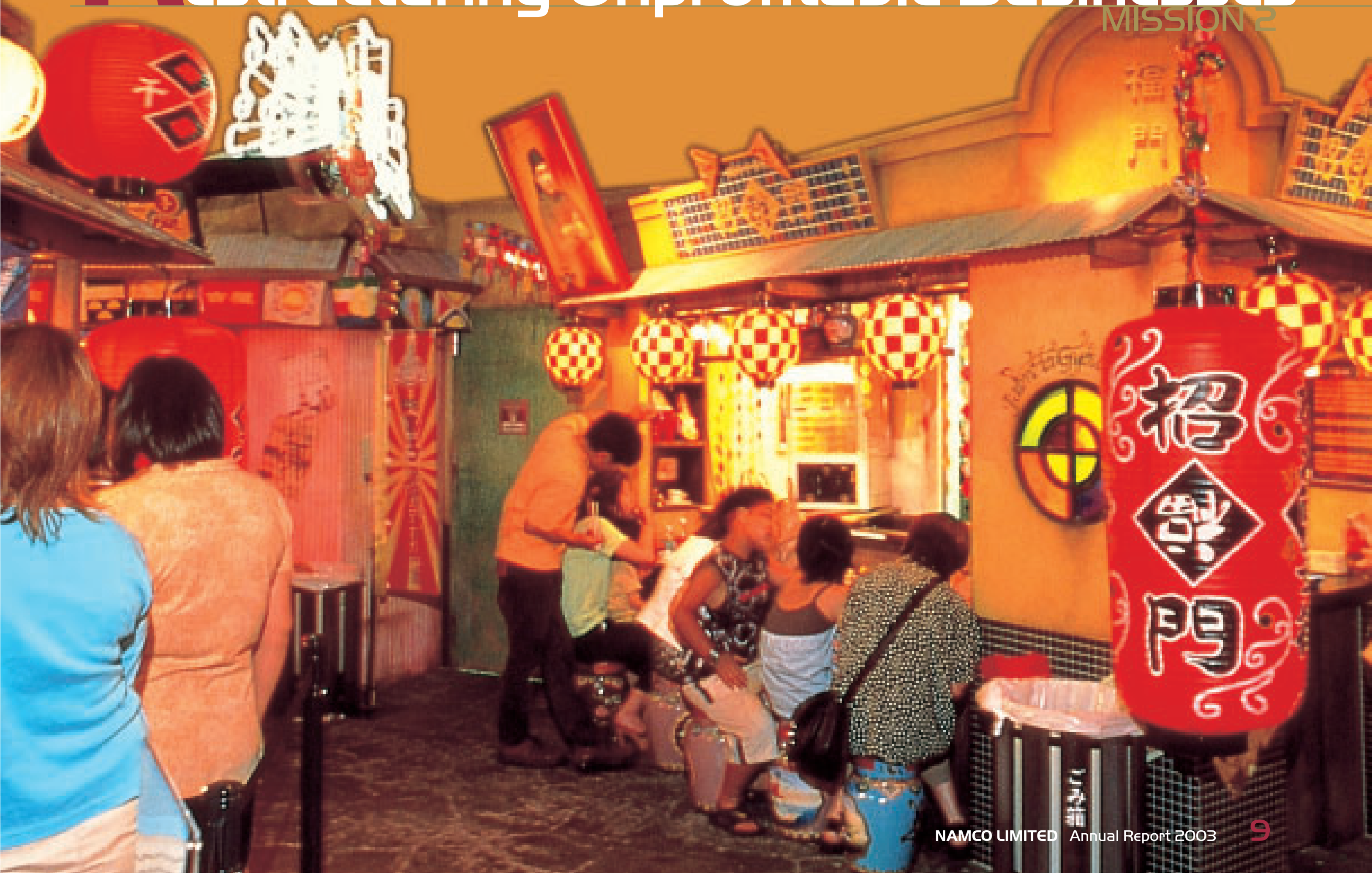
The Amusement Facility Operations business is Namco's largest business segment, accounting for 49.0% of net sales for fiscal 2003. However, this segment's contribution to earnings is relatively low. With no prospect of significant growth in demand at present, the most pressing issue is to improve profitability by increasing operating efficiency, and reducing fixed expenses, product development and manufacturing costs across this segment and the Coin-Operated Game Machine business. Our goals are to strengthen the operations of the AM Company, which is responsible for the Coin-Operated Game Machine business, and improve the profitability of the ET Company, which runs Amusement Facility Operations. Key to accomplishing these goals are the measures described below.

AM Company (Coin-Operated Game Machine Business)

The AM Company's goal for improving profitability is to increase the operating income margin to 23% by March 31, 2005, compared with 22% in fiscal 2003.

ET Company (Amusement Facility Operations)

Demand in the amusement facilities market is expected to remain flat for the foreseeable future. In this climate, it is imperative that companies gear their operations for high profitability and propose amusement facilities that mirror the changing lifestyles of arcade-goers. The ET Company aims to improve the return on assets (ROA), while increasing the gross profit margin to 15% in the fiscal year ending March 2005.



AM COMPANY

Moving on the Offensive

1) Strengthen Planning and Product Development

To reduce costs in the early planning and product development stages, the AM Company will develop products from the perspective of users and streamline R&D costs by speeding decision making. Another priority is improving profitability by reducing product development and manufacturing costs through the use of standardized components and cabinets for game machines.

Progress in Fiscal 2003:

The AM Company developed new products guided by in-depth research into the preferences of end users. Forming monitor groups of female high school students, the core users of seal-printing machines, and other initiatives were instrumental to the overwhelming popularity of full-profile seal-printing machines *Bihada Wakusei* and *Biteki Kakumei*. The AM Company also developed many other products that precisely meet market needs, such as the *Taiko no Tatsujin* series of game machines. And by using standardized components and cabinets, the AM Company aims to reduce costs by approximately 7.5% by the fiscal year ending March 31, 2005.

2) Strengthen our Organization

The AM Company will lower back-office expenses by reducing the number of back-office employees, while focusing on increasing the number of employees involved in product development and frontline sales activities. As part of organizational reforms aimed at raising the efficiency of product development, we have placed product development at the center of our operations. Other initiatives include adopting a flat organization based on in-house companies, establishing the Strategic Planning Group, and introducing the Producer System. These actions, similar to those taken at the CT Company, will help to strengthen product development and marketing skills.

Progress in Fiscal 2003:

The introduction of the Producer System has given us the ability to develop products much more efficiently. More specifically, projects are being carried out much more smoothly and precisely than before. Key to this has been involving the sales promotion team in projects right

TAIKO NO TATSUJIN 4

BITEKI KAKUMEI

SWEET LAND 4

from the planning stage and teaming up with partners in various media to create trends that support the creation of successful videogames. In this and other ways, the AM Company has integrated all stages of game creation from product development to production, sales and promotion and clarified how these operations are implemented across the company. Our flat organization also gives young staff members plenty of opportunity to make the most of their talents.

ET COMPANY

Moving on the Offensive

1) Improve the Profitability of Existing Facilities

Far-reaching cost cutting initiatives, entailing a cost review at amusement facilities and back-office divisions, are a top priority. Our policy is to close amusement facilities with a gross profit margin less than 5%. Namco will continue to close unprofitable and under-performing facilities.

Progress in Fiscal 2003:

There is a clear dividing line among amusement facilities in the North American market in terms of performance, mainly because some outlets are better located than others. The ET Company closed 40 unprofitable outlets this fiscal year, with plans to close an additional 45 outlets by fiscal 2005, bringing the number of total closures to 85 amusement facilities. At the same time, the ET Company will work to improve the profitability of existing stores.

2) A Strategy for Opening New Amusement Facilities Focused on Profitability

The ET Company will open large-scale facilities so as to become the regional No.1 in every area, taking a disciplined approach that maximizes investment returns. To develop new types of amusement facilities tailored to the changing lifestyles of customers, the ET Company plans to establish a new system for building highly profitable entertainment facilities that offer high added value by fiscal 2004.

Progress in Fiscal 2003:

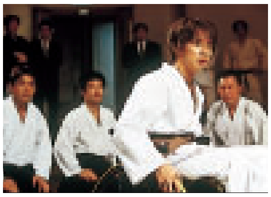
The ET Company opened a total of 10 new facilities in Kagawa, Okinawa, Yamagata, Hokkaido, Niigata and other prefectures, with each turning in a healthy performance. Namco also joined forces with Benesse Corporation to open a new type of facility called *Shima- Shima Town*, opening two of these facilities during the fiscal year.

COLUM

In-Depth: Namco Realigns Subsidiaries

In recent years, Namco has been realigning non-core subsidiaries and affiliated companies with the aim of increasing profitability. Concrete measures are underway at prominent Namco subsidiaries Nikkatsu Corporation and Italian Tomato Ltd. The former company is engaged in Movies and Graphics and the latter in Restaurant Operations. Major initiatives have included the following:

- In March 2002, Nikkatsu initiated structural reforms;



"AIKI"

ITALIAN TOMATO CAFE JR.

- In September 2002, Italian Tomato and I&K Co., Ltd. merged; and
- In March 2003, Italian Tomato conducted a private placement of shares that increased KEY COFFEE, INC.'s equity interest in the company to 29%.

Italian Tomato plans to create a nationwide network of Italian Tomato Café Jr. franchises, with the aim of conducting an initial public offering in 2005. Its target for fiscal 2005 is to have a network of 300 restaurants with sales of ¥6.8 billion.

Meanwhile, Nikkatsu Corporation has continued to push through structural reforms designed to sharpen its ability to plan successful film projects. Nikkatsu is seeking to expand into highly profitable businesses such as the satellite broadcasting and packaged media businesses, where it can leverage its extensive portfolio of films. Preparations are also underway for an initial public offering.

TEKKEN 4–
HEIHACHI MISHIMA

THE TEKKEN SERIES OF 3D ONE-ON-ONE FIGHTING GAMES IS ONE OF NAMCO'S HALLMARK CREATIONS FEATURING INNOVATIVE, FOUR-BUTTON CHARACTER CONTROL AND STATE-OF-THE-ART COMPUTER GRAPHICS.
HEIHACHI MAKES A GUEST APPEARANCE IN THE PS2 EDITION OF SOUL CALIBUR II.

Namco is developing future core businesses in several different areas. One is content delivery in the Web & Mobile field, spearheaded by Namco's WMC Company. Another business is the development and sale of software for liquid crystal displays used in pachinko and pachislot machines by the P-7 Company. Namco's Incubation Center is uncovering and developing new businesses, making good progress with the creation of new types of human services and educational businesses.

WMC Company (Web & Mobile Content Business)

The WMC Company's mission is to create a framework for supplying attractive content of the highest quality to customers worldwide, in a market characterized by an extremely fast pace of technological innovation and growing use of mobile phones equipped with sophisticated functions.

P-7 Company (Pachinko and Pachislot Business)

Despite contracting demand in recent years, the pachinko parlor market is still valued at around ¥1 trillion. The development of new graphics and visual technologies is driving down the sales prices of pachinko and pachislot machines, fueling fierce competition. In this exacting climate, Namco's P-7 Company entered the pachinko systems market leveraging the outstanding entertainment value offered by its software for pachinko and pachislot machine LCDs—the product of Namco's extensive experience in the videogame industry.

Growing New Businesses

MISSION 3

Incubation Center (New Business)

Leveraging Namco's extensive expertise in entertainment, the Incubation Center is working to uncover and develop new businesses that have the potential to support growth over the medium and long terms and is responsible for fostering an entrepreneurial business culture.

WMC COMPANY

Moving on the Offensive

1) Expand Market Share

By creating superior content geared to new core technologies and faster communication speeds, the WMC Company is working to increase its market share. Finding multiple applications of content for each business domain will lower content development costs, helping to diversify business domains and increase earnings.

Progress in Fiscal 2003:

As of March 31, 2003, the number of subscribers totaled approximately 550,000 users, roughly 20% higher than a year earlier. Overseas, the WMC Company began offering content distribution services via many prominent companies, and services made a strong start. These companies include Sprint PCS Group, AT&T Wireless, Inc. in the U.S.; the Vodafone Group PLC, for service to seven European countries; Far EasTone in Taiwan; SmarTone Telecommunications Holdings Limited in Hong Kong; and M Dream Co., Ltd. in South Korea.

P-7 COMPANY

Moving on the Offensive

1) Strengthen Planning and Development Skills

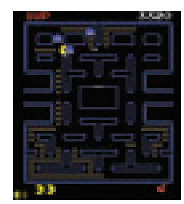
The P-7 Company is focused on developing products that satisfy market demands based on a precise understanding of customer needs and reliable market analyses. Our businesses encompass all aspects of services and products. Driving growth is Namco's wealth of video content, strategies for multiplying earnings by reusing content and new proposals for products that tap Namco's expertise in planning and mechatronics in the field of coin-operated game machines.

Progress in Fiscal 2003

To produce higher quality graphics software, the P-7 Company proactively hired talented producers and visual software developers as part of plans to bolster the capabilities of its software development staff. The company also developed and marketed *Dig Dug*, a new LCD software product created from Namco's proprietary System P7 graphics board, built around a Sony PlayStation™ chipset.

GREAT ROBO

XEVIOUS



PAC-MAN

2) Implement Sales Strategy Focused on Profitability

The pachinko systems field promises to make a significant contribution to earnings, because here Namco can expand business by making effective use of content it has accumulated. The P-7 Company will implement a sales strategy focused on profitability, founded on in-depth market analyses. In response to the growing variety of pachinko and pachislot machines available on the market at lower prices, the P-7 Company will channel energy into developing and launching new types of hardware for 2D and 3D graphics applications.

Progress in Fiscal 2003:

During fiscal 2003, the P-7 Company successfully developed graphics boards for liquid crystal displays used in pachinko and pachislot machines. Two models were the *System P6* and the *System P246*. The former is a low-cost version of the *System P7* 2D graphics board that runs on a chip used in the PlayStation console. The *System P246* is a highly promising 3D graphics board for use in pachinko and pachislot machines equipped with a chipset that can display graphics on a par with the PlayStation 2. Market launch is scheduled for March 2004. The P-7 Company has also initiated development of the next-generation *System P8* (provisional) graphics board for pachinko and pachislot machines.

INCUBATION CENTER

Moving on the Offensive

1) Expand Human Services Businesses

Building on existing sales of communications equipment, Namco is moving to increase sales of physical rehabilitation equipment with entertainment features and expand the operations of human Services facilities for the elderly.

Progress in Fiscal 2003:

Significant product launches in fiscal 2003 included a low-cost version of *Talking Aid*, a portable communications aid and "*PasoPal Multi Ver.4.0*," a communications aid for people with severe disabilities. Namco also worked to grow sale of rehabilitation equipment with entertainment features that help make rehabilitation a more pleasant experience, particularly for elderly and physically challenged persons of all ages undergoing physical rehabilitation such as muscular training and recovery of various bodily functions. Namco also launched *Hustle Club*, a new human services website.

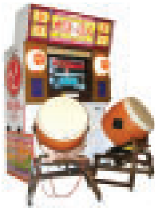
2) Establish New Businesses

Namco aims to develop high-value-added businesses that emphasize profitability, with the view to eventually spinning them off as highly autonomous in-house companies when they have achieved sufficient business volume and profitability.

Progress in Fiscal 2003:

During fiscal 2003, Namco joined forces with Sony Corporation to jointly develop *Talking AIBO created with Namco*, dedicated speech software for Sony's new entertainment robot, AIBO. This software will arrived in stores in November 2002. Strong shipments of teaching simulators for driving schools were also recorded in fiscal 2003. Namco also completed the development of the Interactive 3D video system, which produces 3D imagery without relying on the use of visual aids. This breakthrough technology can be applied to many different applications at low cost, including coin-operated game machines, LCDs for pachinko and pachislot machines and mobile phones.

PACHISLOT DIGDAG



REHABILITAINMENT MACHINE
TAIKO NO TATSUJIN

PAC-MAN

ONE OF NAMCO'S BEST-KNOWN CHARACTERS, PAC-MAN HAS FOUND A NEW NICHE IN MOBILE PHONE APPLICATIONS.

Financial Section

Contents

Management's Discussion and Analysis

1. Overview

Scope of consolidation

The Namco Group comprises 26 companies: the parent company, Namco Limited, 24 subsidiaries and one affiliate. Of these 23 are consolidated. Shanghai Namco Co., Ltd. is excluded from the consolidation and accounted for under the equity method of accounting, since it is insignificant in the context of consolidated financial statements.

Overview

In the amusement industry, the Amusement Facility Operations and Coin-Operated Game Machine markets continued to shrink, and the success of initiatives to bolster earnings clearly separated winners from losers. In the Home Videogame Software business, moves toward mergers and alliances accelerated as players tried to find a way forward in a mature domestic market and competitive considerations became more global in nature.

In this challenging climate, Namco implemented structural reforms to eliminate factors restraining growth. A series of strategic initiatives implemented since May 1, 2002 include: (1) strengthening the Home Videogame Software business; (2) building a stronger Coin-Operated Game Machine business; (3) improving the earnings power of Amusement Facility Operations; (4) strengthening the Web & Mobile Content business; (5) entering the market for liquid crystal parts for pachinko and pachislot machines; (6) Create in-house systems for developing and incubating new businesses that have the potential to become mainstay businesses; (7) improving head office operating efficiency; (8) strengthening the Corporate Strategic Planning Office. Namco also made the transition to a new management structure comprising the Corporate Headquarters, Corporate Office, five independent business companies, and the Incubation Center as a means to increase the independence of companies in the Namco Group and to empower them to follow policies to maximize earnings.

2. Operating Results

Net sales

Underpinned by these and other initiatives to drive growth, sales in fiscal 2003, ended March 31, 2003 rose favorably, increasing ¥2,641 million, or 1.7%, from the previous fiscal year to ¥154,777 million. Gross profit increased at a faster pace, rising ¥2,627 million, or 7.7%, to ¥37,529 million as the cost of sales was largely unchanged from the previous fiscal year.

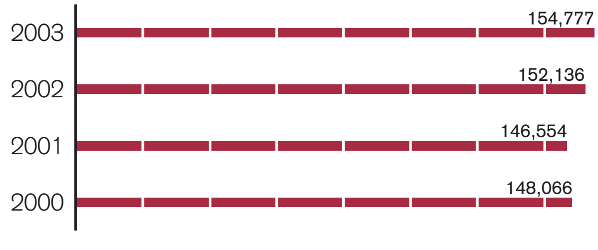
Selling, general and administrative (SG&A) expenses

SG&A expenses declined ¥660 million, or 2.3%, to ¥28,059 million, largely due to lower spending on research and development and a decline in the provision to the allowance for doubtful accounts.

Operating income

Operating income rose ¥3,337 million, or 54.4%, to ¥9,470 million. The sharp jump in operating income is due mainly to higher sales at the parent company's amusement facility operations and rising sales of software overseas. Effective from the current fiscal year, Namco Hometec Inc. changed its method of accounting for research and development (R&D) expenses to standardize the accounting policies of the parent company and subsidiaries. Effective from fiscal 2003, R&D expenses, which were previously included in SG&A expenses are included in inventories at the time a decision is made to develop a product. An amount proportional to the sales volume of the relevant product is then included in the cost of sales. The effect of this change was to

NET SALES
(Millions of yen)



COST OF SALES
(Millions of yen)

increase the cost of sales by ¥458 million and reduce SG&A expenses by ¥948 million, and as a result increase operating income and income before income taxes by ¥489 million each compared to the amounts that would have been reported if the previous method had been applied consistently.

Other income (expenses)

Non-operating expenses declined 52.8% to ¥693 million, mainly reflecting lower interest paid, amortization of goodwill and provision for doubtful accounts, which offset declines in interest income and gains on sales of property and equipment.

Extraordinary gain/loss

Extraordinary gains totaled ¥578 million. This included a ¥230 million gain on the sale of investment securities, not a factor in the previous fiscal year; a ¥185 million gain on sales of property, plant and equipment; and ¥135 million in proceeds from the collection of leasehold deposits following the closure of facilities. Looking at extraordinary losses, the loss on revaluation of securities was ¥429 million, ¥333 million, or 43.7%, less than in the previous fiscal year. Music Playground Inc., a U.S. subsidiary, booked mandatory write-downs of goodwill following an appraisal of goodwill and other intangible assets in accordance with generally accepted accounting principles in the U.S. Although the impairment loss declined ¥561 million, or 97.1%, the loss on revaluation of property and equipment increased ¥379 million to ¥467 million. Moreover, revaluation of inventories of movies and graphics resulted in a valuation loss of ¥347 million. Other extraordinary losses included the provision of ¥142 million to the allowance for past service liabilities for directors, and ¥162 million for additional retirement benefits. As a consequence, the extraordinary loss totaled ¥1,061 million.

Net income

Due to the foregoing, income before income taxes rose ¥4,638 million, or 50.7%, to ¥7,716 million, compared with ¥3,078 million in the previous fiscal year.

Net income, after adjustment for income taxes and minority interests, increased ¥2,080 million to ¥4,115 million, compared with ¥2,035 million in the previous fiscal year.

3. Segment Sales

Coin-Operated Game Machines

In fiscal 2003, ended March 31, 2003, sales in the Coin-Operated Game Machines business were ¥16,254 million, ¥2,036 million, or 11.1% lower than in the previous fiscal year. Segment operating income declined ¥313 million, or 21.1%, to ¥1,180 million. This segment comprises the AM Company (amusement equipment), the P-7 Company (liquid crystal parts for pachinko and pachislot machines) and affiliated companies engaged in businesses peripheral to the above.

AM Company

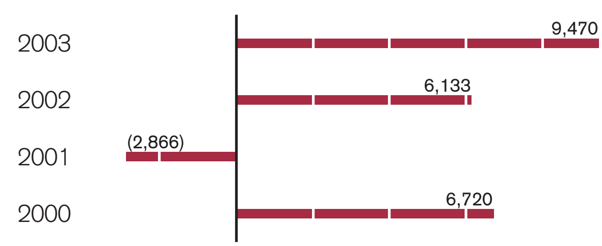
The AM Company's domestic sales were lifted by a series of measures to reinforce the Company, which also contributed to a stronger earnings base. The AM Company also recorded favorable sales of a number of titles, including the *Taiko no Tatsujin* series of musical games, in which users beat a Japanese *taiko* drum in time to their favorite tunes. Sales in the U.S. and European markets were on target.

P-7 Company

Demand for pachinko and pachislot machines weakened, due in large part to a two-month period of voluntary restraint on their sales during the 2002 FIFA World Cup soccer tournament. This

SELLING, GENERAL & ADMINISTRATIVE EXPENSES
(Millions of yen)

OPERATING INCOME
(Millions of yen)



restraint delayed replacement of pachinko and pachislot game machines in pachinko parlors and, as a consequence, the scheduled launch of titles for pachinko and pachislot machines for the fiscal year under review was pushed back to fiscal 2004.

Home Videogame Software

Segment operating income rose ¥1,446 million, or 18.7%, to ¥9,196 million, on segment sales of ¥42,475 million, a year-on-year increase of ¥6,955 million, or 19.6%. This business comprises the CT Company (home videogame software), the WMC Company (content development for mobile phones and other mobile devices) and affiliates engaged in businesses peripheral to the above.

CT Company

In April 2002, Namco agreed to collaborate with Nintendo Co., Ltd. in the joint development and marketing of software products for home videogame consoles. Under this agreement, Namco launched two titles for the Nintendo GameCube and nine titles for the Nintendo Gameboy Advance. Namco launched 62 new titles and recorded global software sales of 12.33 million units in fiscal 2003.

WMC Company

During the year under review, Namco developed and began distributing game content via mobile phone services for users of new handset models provided by NTT DoCoMo, Inc. and to J-Phone Co., Ltd. and other service operators. Namco also began distributing content from a new web site catering to NTT DoCoMo and J-Phone. The number of people signing up for our subscription-based game services for mobile phone users continues to rise steadily. In October 2002, Namco started distributing game content over Mitsubishi Electric Corporation's car navigation system network.

Amusement Facility Operations

Segment operating income increased ¥2,687 million, or 128.8%, to ¥4,773 million, despite a ¥1,280 million, or 1.7%, decline in sales to ¥75,900 million. Sales at existing facilities rose 1.6%, increasing 0.7% in the first half and 2.1% in the second half against the same periods in the previous fiscal year. For the full fiscal year, sales increased 1.6%, compared with a projected decline of 3%. Sales in North America fell 4.1% in the first half and 8.7% in the second half. Full fiscal year sales were down 6.4%, against a projected 6% decline. Namco opened 10 directly operated amusement facilities in Japan while closing 35. As a result, the number of directly operated amusement facilities at the fiscal year-end was 344. In fiscal 2003, Namco closed 40 amusement facilities in North America and did not open any new facilities. Consequently, the Namco Group had 242 directly operated facilities in North America as of the fiscal year-end. The number of Namco Group amusement facilities in Japan and overseas totaled 1,967. Of these, 613 are under Namco Group management and 1,353 locations operate under revenue-sharing arrangements with other companies. Namco also operates one theme park.

Restaurant Operations

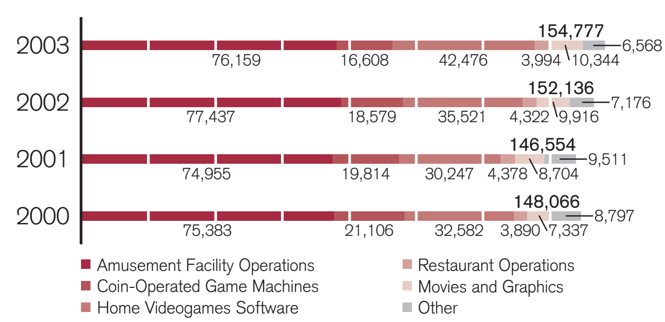
This segment moved into the black in fiscal 2003, reporting ¥34 million in operating income, compared with a ¥65 million operating loss in the previous fiscal year. This result came despite a ¥401 million, or 9.5%, decline in sales to ¥3,826 million.

Italian Tomato Ltd.

In September 2002, I&K Co., Inc. was absorbed by Italian Tomato Ltd., to streamline Italian Tomato's restaurant operations and strengthen its management structure. In March 2003, Key Coffee

NET SALES BY SEGMENT

(Millions of yen)



NET SALES BY SEGMENT

	Millions of yen			
	2000	2001	2002	2003
Sales by Segment				
Amusement Facility Operations	¥ 75,119	¥ 74,686	¥ 77,181	**¥ 75,900**
Coin-Operated Game Machines	20,668	19,344	18,291	**16,255**
Home Videogame Software	32,558	30,220	35,520	**42,476**
Restaurant Operations	3,808	4,282	4,229	**3,827**
Movies and Graphics	7,321	8,687	9,903	**10,132**
Other	8,592	9,355	7,012	**6,187**
Total	¥148,066	¥146,554	¥152,136	**¥154,777**
Overseas Sales*				
Overseas Sales	44,507	40,239	48,853	**48,979**
Net Sales	148,066	146,554	152,136	**154,777**
Percentage of Net Sales	30.1%	27.5%	32.1%	**31.6%**

*Overseas sales include exports and sales by overseas subsidiaries.

Inc. increased its equity stake in the company from 15% to 29%, marking a new beginning for Italian Tomato. The new Italian Tomato will enhance its nationwide network of self-service restaurants, Italian Tomato Café Jr., offering competitively priced coffee beverages and pasta dishes, with the goal of eventually becoming a publicly listed company. As of March 31, 2003, Namco operated 247 restaurants in Japan, including 49 directly operated restaurants and 198 franchised restaurants.

Movies and Graphics

The operating loss in this segment widened to ¥411 million, from an operating loss of ¥150 million in the previous fiscal year. Segment sales rose marginally by ¥228 million, or 2.3%, to ¥10,131 million, due to sluggish spending on entertainment.

Nikkatsu Corporation

Growth was driven by sales from the showing of movies and the distribution of Japanese and foreign movies, combined with the launch of several DVD titles targeting the 2002 FIFA World Cup. In 2002, Nikkatsu began far-reaching restructuring program. Measures included streamlining operations, an early retirement program, a reduction in proprietary movie assets with low earnings potential, and other initiatives to restore profitability.

Others

The Others segment posted an operating loss of ¥1,022 million, down from ¥1,373 million from the previous fiscal year on sales of ¥6,188 million, a decline of ¥823 million, or 11.7%.

Subsidiaries

The activities of Namco Trading Co., Ltd. include the installation and management of vending machines and content distribution. The company is now focusing on identifying new locations for installing vending machines in order to offset a decline in the installation base and the renegotiation of contract terms with beverage producers. Namco Ecolotec Ltd. is involved in the environmental business, including recycling. Delays in new product launches resulted in difficulties for Namco Ecolotec in expanding its customer base. Namco is now providing technical assistance to help the company rapidly build up a marketing base. Music Playground Inc. has completed the development of a system for delivering music over the Internet and is working on establishing ties with U.S. recording companies. However, the Music Playground faces an uphill battle with the U.S. music industry itself in recession. The company has written down most of its assets in compliance with new U.S. impairment accounting standards.

4. Sales by Region

Japan

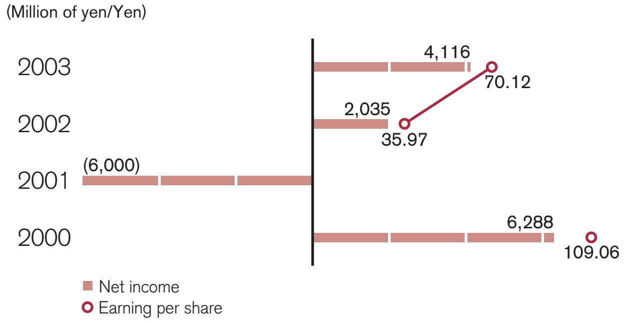
Sales in Japan rose 3.9% to ¥115,343 million compared to the previous fiscal year, boosting operating income 25.4% to ¥11,998 million. Sales were driven by the launch of several titles that quickly won popularity. These included *Necchu Pro Baseball 2002*, popular game software for PlayStation 2 developed jointly with Fuji Television and released in April 2002; *Taiko No Tatsujin Tatakon De Dodon Ga Don* (and the controller *Tatakon*), the home videogame software version of a popular music game launched in October 2002; and *Tales of Destiny 2*, launched in November. The ET Company closed and consolidated unprofitable game centers and arcades to enhance operational efficiency, attract more customers and reduce costs. Popularity was also boosted by the renewed popularity of medal-collecting game machines, seal-printing machines and prize-crane pusher game machines. As a result, the operating results of

OPERATING INCOME BY SEGMENT

	Millions of yen			
	2000	2001	2002	**2003**
Operating Income by Segment				
Amusement Facility Operations	¥ 573	¥ (821)	¥2,087	**¥ 4,774**
Coin-Operated Game Machines	370	(3,207)	1,494	**1,181**
Home Videogame Software	9,822	4,855	7,750	**9,197**
Restaurant Operations	80	131	(65)	**34**
Movies and Graphics	(168)	125	(150)	**(411)**
Other	375	(436)	(1,374)	**(1,023)**
Elimination	(289)	294	229	**(106)**
Total	¥10,763	¥ 941	¥9,971	**¥13,646**
Unallocated Administrative Expenses	¥ 4,043	¥ 3,807	¥3,838	**¥ 4,176**
Operating Income	¥ 6,720	¥(2,866)	¥6,133	**¥ 9,470**

NET INCOME & EARNING PER SHARE

(Million of yen/Yen)



existing stores were favorable. Namco operates 797 facilities, including 344 directly managed facilities and 453 operated under revenue-sharing arrangements.

North America

In North America, operating income jumped 372.2% to ¥1,936 million, although sales dropped 4.8% to ¥33,464 million. In coin-operated game machines, sales of Namco-developed products, such as *Soul Calibur II*, were on target. Sales in North America were brisk on lower retail prices for the PlayStation 2, which led to strong retail orders for lower priced versions of *Tekken Tag Tournament* for the PlayStation 2, *Tekken 3* for the PlayStation and repeat orders for *Tekken 4* for the PlayStation 2. A new software product for Xbox and the PlayStation 2, *Dead to Rights*, developed by U.S.-based Namco Hometek Inc., also made a positive contribution to sales. Distribution of game content in the United States began in August 2002 over the Sprint PCS mobile phone network.

Results at North American operations failed to live up to full-year forecasts, despite initiatives that included the closure of 40 directly managed unprofitable facilities. Namco Japan also provided guidance in lease negotiations for Namco Cybertainment Inc., the manager of group amusement facilities in North America. We plan to step up guidance to the company and close more unprofitable facilities. XS Entertainment Inc., which runs combined game parlor and restaurant facilities, continues to operate in a difficult business climate. However, restructuring measures, cost reductions among them, are yielding results. As of March 31, 2003, amusement facilities in North America totaled 1.110 locations, 242 under the direct management of Namco Group and 868 operated under revenue-sharing arrangements.

Europe

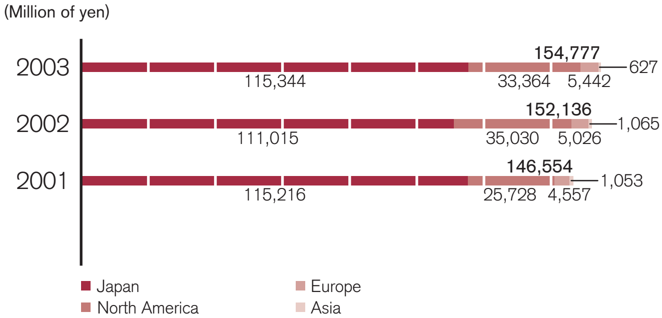
In Europe, our operating loss narrowed from ¥35 million to ¥16 million as sales rose 8.3% from the previous fiscal year to ¥5,441 million. In coin-operated game machines, sales rose sharply in Britain as we added and actively promoted game machines supplied by other manufacturers to our own lineup of game machines. In home video-game software, sales of *Tekken 4* for the PlayStation 2 were strong, and so were repeat orders for lower priced versions, as in the U.S. market. Distribution of game content in seven European countries started in October 2002 over the British-based Vodafone mobile network. In May 2002, Namco opened a new amusement complex in Barcelona, Spain, NAMCO DIAGONAL MAR, which includes a nightclub, game center, bowling alleys, a billiard parlor and restaurants. As of March 31, 2003, Namco operated 34 amusement facilities in Europe, including 10 under direct management by the Namco Group and 24 operating under revenue-sharing basis.

Asia

The operating loss in our Asian operations decreased from ¥177 million to ¥33 million, although sales fell 41.2% to ¥627 million. Distribution of game content in Taiwan and Hong Kong started in December 2002 over the Far EasTone and SmarTone networks. Distribution in South Korea, over the M Dream network, launched in October 2001, proved particularly popular. Shanghai Namco Co., Ltd. opened a new arcade in NAN CHANG TAI PING YANG GUANG CHANG in May 2002 and sales have been growing favorably. Namco Enterprises Asia Ltd., based in Hong Kong, returned to profitability by trimming unprofitable operations, among them two directly operated facilities. As of March 31, 2003, Namco operated 25 facilities in Asia, including 17 directly operated locations and eight operated on a revenue-sharing basis.

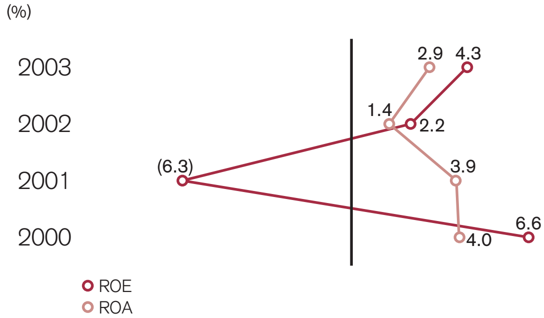
NET SALES BY REGION

(Million of yen)



ROE, ROA

(%)



5. Liquidity and Capital Resources

Assets, Liabilities and Shareholders' Equity

Total assets as of March 31, 2003 were ¥143,213 million, a decline of 0.6% from the previous fiscal year-end. Total cash on hand and in banks rose ¥10,900 million, or 43.1%, from ¥25,318 million as of the end of the previous fiscal year to ¥36,218 million. In property and equipment, amusement machines and facilities declined ¥7,126 million. Investments and others were largely unchanged, except leasehold deposits, which were ¥2,186 million lower than a year earlier.

Total liabilities fell 3.4% to ¥44,813 million, from ¥46,392 million a year earlier. Since the issuance of the fourth series of unsecured convertible bonds is due for redemption in September 2003, the outstanding balance of ¥7,178 million was transferred from the convertible debentures account under long-term liabilities to debentures due within one year under current liabilities. Short-term bank loans were ¥5,944 million at the fiscal year-end, a decline of ¥1,416 million from ¥7,360 million a year earlier. Long-term borrowings also fell to ¥1,059 million, a ¥2,316 million decline from ¥3,375 million at the previous fiscal year-end. As a consequence, total borrowings declined ¥3,732 million, or 34.8%.

Total shareholders' equity increased ¥514 million to ¥96,647 million. The shareholders' equity ratio improved 0.8 of a percentage point from 66.7% to 67.5%.

Cash Flows

Cash and cash equivalents as of March 31, 2003 were ¥36,078 million, an increase of ¥10,838 million, or 42.9%, from the previous fiscal year-end.

Cash flows from operating activities

Net cash provided by operating activities rose ¥522 million from the previous fiscal year to ¥15,890 million. The principal sources of cash flow from operating activities were ¥7,716 million in income before income taxes, an increase of ¥4,638 million compared to the previous fiscal year, and a decline in trade receivables. Effective from the current fiscal year, investments in game machines installed at amusement facilities and proceeds from the sale of used game machines installed at amusement facilities, previously reported as a component of investing cash flows, is reclassified and presented as a component of cash flows from operating activities. The effect of this change was to reduce net cash provided by operating activities by ¥7,162 million.

Cash flows from investing activities

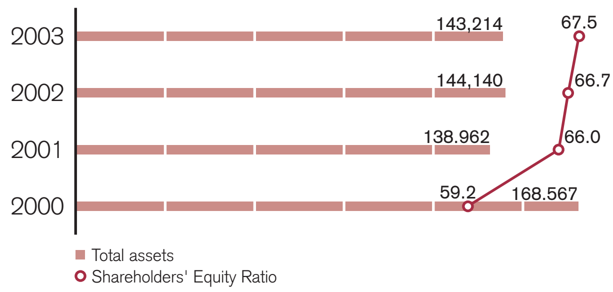
As noted above, effective from the current fiscal year, investments in game machines installed at amusement facilities and equipment and proceeds from the sale of used game machines at amusement facilities, is reclassified and presented as a component of cash flows from operating activities. The effect of this reclassification was to reduce net cash used in investing activities from ¥11,009 million in the previous fiscal year to ¥913 million in the current fiscal year.

Cash flows from financing activities

Net cash used in financing activities was ¥3,501 million. The main uses of cash in financing activities were repayment of debt and payment of cash dividends.

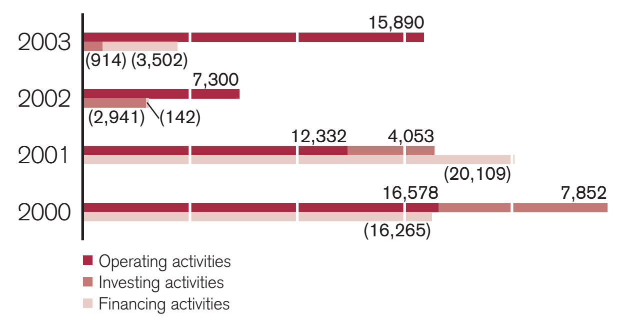
TOTAL ASSETS & SHAREHOLDERS' EQUITY RATIO

(Million of yen/%)



CASH FLOW

(Million of yen)



Consolidated Balance Sheets

NAMCO LIMITED AND SUBSIDIARIES
31ST MARCH, 2002 AND 2003

ASSETS	Millions of yen 2002	Millions of yen 2003	Thousands of U.S. dollars (Note 2) 2003
Current assets:			
Cash (Note 3)	¥ 25,319	¥ 36,219	$ 305,646
Receivables:			
Trade receivables	18,806	14,254	120,287
Allowance for doubtful accounts	(840)	(379)	(3,198)
Net receivables	17,966	13,875	117,089
Inventories (Note 5)	12,504	13,482	113,772
Deferred income taxes–current (Note 9)	2,522	1,114	9,401
Other current assets	3,035	3,399	28,683
Total current assets	61,346	68,089	574,591
Property and equipment:			
Amusement machines and facilities	92,420	85,294	719,781
Buildings and structures	10,825	11,143	94,034
Machinery and equipment	11,886	11,509	97,122
Land	7,636	6,965	58,776
Construction in progress	–	62	523
Accumulated depreciation	(83,181)	(79,319)	(669,358)
Net property and equipment	39,586	35,654	300,878
Other assets:			
Investment securities, including non-consolidated subsidiaries and affiliates (Note 4)	1,501	1,094	9,232
Leasehold deposits (Note 6)	28,274	26,087	220,143
Goodwill	1,467	1,028	8,675
Long-term prepaid expenses	1,139	973	8,211
Deferred income taxes—non-current (Note 9)	5,605	4,543	38,337
Other non-current assets	6,561	7,034	59,359
Allowance for doubtful accounts	(1,339)	(1,288)	(10,869)
Total other assets	43,208	39,471	333,088
Total assets	¥144,140	¥143,214	$1,208,557

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2002	Millions of yen 2003	Thousands of U.S. dollars (Note 2) 2003
Current liabilities:			
Short-term bank loans	¥ 5,702	¥ 4,556	$ 38,447
Current portion of long term debt (Note 7)	1,658	8,566	72,287
Trade payables	11,451	11,917	100,566
Other payables	3,395	3,328	28,084
Accrued income taxes (Note 9)	895	1,653	13,949
Accrued expenses	3,994	3,346	28,236
Other current liabilities	2,564	2,554	21,553
Total current liabilities	29,659	35,920	303,122
Long-term debt (Note 7)	10,554	2,610	22,025
Allowance for employees' retirement benefits (Note 8)	1,217	1,219	10,287
Other long-term liabilities	4,963	5,065	42,743
Total liabilities	46,393	44,814	378,177
Minority interest in consolidated subsidiaries	1,614	1,753	14,793
Shareholders' equity (Note 10)**:**			
Common stock:			
Authorized—109,685,421 shares			
Issued—55,087,618 shares (2002–55,087,618 shares)	27,369	27,369	230,962
Additional paid-in capital	26,399	26,399	222,776
Retained earnings	41,251	43,429	366,489
Other securities valuation difference	(124)	(65)	(548)
Foreign currency translation adjustments	1,238	(484)	(4,084)
	96,133	96,648	815,595
Treasury stock	(–)	(1)	(8)
Total shareholders' equity	96,133	96,647	815,587
Contingent liabilities (Note 13)			
Total liabilities and shareholders' equity	¥144,140	¥143,214	$1,208,557

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income

NAMCO LIMITED AND SUBSIDIARIES
YEARS ENDED 31ST MARCH, 2002 AND 2003

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2002	2003	2003
Net sales	¥152,136	**¥154,777**	**$1,306,135**
Cost of sales	117,283	**117,248**	**989,434**
Gross profit	34,853	**37,529**	**316,701**
Selling, general and administrative expenses (Note 11)	28,720	**28,059**	**236,785**
Operating income	6,133	**9,470**	**79,916**
Other income:			
Interest and dividends	302	**148**	**1,249**
Gain on sale of property and equipment	124	**193**	**1,629**
Gain on sale of investment securities	–	**231**	**1,949**
Other	250	**345**	**2,911**
	676	**917**	**7,738**
Other expenses:			
Interest	340	**242**	**2,042**
Other (Note 12)	3,391	**2,428**	**20,490**
	3,731	**2,670**	**22,532**
Income before income taxes and minority interest	3,078	**7,717**	**65,122**
Income taxes (Note 9)**:**			
Current	897	**1,431**	**12,076**
Deferred	20	**2,139**	**18,051**
Minority interest	126	**31**	**261**
Net income	¥ 2,035	**¥ 4,116**	**$ 34,734**

	Yen		U.S. dollars (Note 2)
Per share of common stock:			
Net income:			
Primary	¥36.95	**¥72.35**	**$0.61**
Fully diluted	35.97	**70.12**	**0.59**
Cash dividends applicable to the year	17.00	**30.00**	**0.25**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

NAMCO LIMITED AND SUBSIDIARIES
YEARS ENDED 31ST MARCH, 2002 AND 2003

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2002	2003	2003
Common stock:			
Balance at beginning of year	¥27,369	¥27,369	$230,962
Conversion of convertible bonds	–	–	–
Balance at end of year	27,369	27,369	230,962
Additional paid-in capital:			
Balance at beginning of year	26,399	26,399	222,776
Conversion of convertible bonds	–	–	–
Balance at end of year	26,399	26,399	222,776
Retained earnings:			
Balance at beginning of year	39,279	41,251	348,110
Adjustment arising from acquisition of consolidated subsidiaries	(61)	–	–
Adjustment arising from merger of consolidated subsidiaries	–	(95)	(802)
Net income	2,035	4,116	34,734
Cash dividends	–	(1,763)	(14,878)
Bonuses to directors and statutory auditors	(2)	(80)	(675)
Balance at end of year	41,251	43,429	366,489
Other securities valuation difference:			
Balance at beginning of year	(108)	(124)	(1,046)
Net change during the year	(16)	59	498
Balance at end of year	(124)	(65)	(548)
Foreign currency translation adjustments:			
Balance at beginning of year	(1,217)	1,238	10,447
Net change during the year	2,455	(1,722)	(14,531)
Balance at end of year	1,238	(484)	(4,084)
Treasury stock:			
Balance at beginning of year	(76)	0	0
Decrease (increase) during the year	76	(1)	(8)
Balance at end of year	0	(1)	(8)
Total shareholders' equity	¥96,133	¥96,647	$815,587

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

NAMCO LIMITED AND SUBSIDIARIES
YEARS ENDED 31ST MARCH, 2002 AND 2003

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2002	2003	2003
Cash flows from operating activities:			
Income before income taxes and minority interest	¥ 3,078	¥ 7,717	$ 65,122
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	14,085	11,227	94,743
Gain (Loss) on sale of property, plant and equipment	101	(168)	(1,418)
Loss on disposal of property, plant and equipment	1,268	1,586	13,384
Revaluation loss on property, plant and equipment	89	467	3,941
Gain (Loss) on sale of securities	4	(226)	(1,907)
Revaluation loss on securities	763	429	3,620
Acquisition of amusement machines and facilities	(8,455)	(7,784)	(65,688)
Other non-cash items	1,714	38	321
Changes in operating assets and liabilities:			
Trade receivables	(1,899)	3,764	31,764
Inventories	(2,847)	(610)	(5,148)
Trade payables	(863)	693	5,848
Accrued expenses	572	(767)	(6,473)
Interest and dividend received	308	148	1,249
Interest paid	(337)	(253)	(2,135)
Income taxes paid	(514)	(477)	(4,025)
Other, net	233	106	895
Net cash flow provided by operating activities	7,300	15,890	134,093
Cash flows from investing activities:			
Payments for time deposits	(31)	(116)	(979)
Proceeds from time deposits	78	54	456
Capital expenditure	(1,818)	(1,754)	(14,802)
Payments for acquisition of software	(179)	(424)	(3,578)
Payment of leasehold deposits	(1,911)	(558)	(4,709)
Repayment of leasehold deposits	2,004	1,927	16,262
Proceeds from sale of property, plant and equipment	252	886	7,477
Acquisition of investment securities	(115)	(11)	(93)
Sale of investment securities	22	301	2,540
Payment in connection with business transfer	(928)	(700)	(5,907)
Other—net	(315)	(519)	(4,380)
Net cash flow used in investing activities	(2,941)	(914)	(7,713)
Cash flows from financing activities:			
Short-term bank loans, net	476	(1,381)	(11,654)
Proceeds from long-term bank loans	3,457	190	1,603
Payments for long-term bank loans	(1,044)	(2,098)	(17,705)
Proceeds from issuance of straight bonds	–	1,000	8,439
Redemption of convertible bonds	(3,090)	–	–
Cash dividends paid	–	(1,763)	(14,877)
Other, net	59	550	4,641
Net cash flow used in financing activities	(142)	(3,502)	(29,553)
Effect of exchange rate changes on cash and cash equivalents	650	(636)	(5,367)
Net increase in cash and cash equivalents	4,867	10,838	91,460
Cash and cash equivalents at beginning of year	20,222	25,240	212,996
Cash and cash equivalents on beginning balance arising from acquisition of consolidated subsidiaries	151	–	–
	20,373	25,240	212,996
Cash and cash equivalents at end of year (Note 3)	¥25,240	¥36,078	$304,456

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

NAMCO LIMITED AND SUBSIDIARIES
MARCH 31, 2002 AND 2003

1. Basis of Financial Statement Presentation and Summary of Significant Accounting Policies

The accompanying consolidated financial statements have been prepared from the accounts maintained by Namco Limited ("the Company") in accordance with the provisions set forth in the Japanese Commercial Code and in conformity with accounting principles and practices generally accepted in Japan, which may differ in some material respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

In preparing the accompanying financial statements, certain reclassifications have been made in order to present them in a form which is more familiar to readers outside Japan. In addition, the notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

The Company and its domestic subsidiaries maintain their books of account in conformity with generally accepted accounting principles in Japan, and its foreign subsidiaries in conformity with those of the United States and other generally accepted accounting principles, based on where the subsidiaries are incorporated. However, it is the opinion of the management of the Company that the accounting principles followed by the foreign subsidiaries do not substantially differ from those followed by the Company, except for methods of depreciation of property and equipment and amortization of goodwill.

Significant accounting policies are as follows:

(a) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and significant subsidiaries controlled directly or indirectly by the Company. Significant affiliates over which the Company exercises significant influence in terms of their operating and financial policies as well as a non-consolidated subsidiary have been included in the consolidated financial statements on an equity basis. All significant intercompany balances and transactions have been eliminated in consolidation.

In order to facilitate consolidation, subsidiaries mainly adopt an annual fiscal period that ends on the last day of February.

The Company has applied the equity method, after elimination of unrealized intercompany profit, for investments in non-consolidated subsidiary and significant affiliates.

(b) Foreign Currency Translation

All receivables and payables denominated in foreign currencies at the balance sheet date are translated at the exchange rates in effect as of the balance sheet dates, and the unrealized gain or loss is reflected in other income (expenses).

The balance sheet accounts of foreign subsidiaries are translated into yen at the year end rates. Gains and losses resulting from translation are generally excluded from the statements of income and are accumulated under the balance sheet caption "Foreign currency translation adjustments" in "Shareholders' equity".

Revenue and expense accounts of the consolidated foreign subsidiaries are translated into Japanese yen at annual average exchange rate.

(c) Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, the Company considers cash, bank deposits which may be withdrawn on demand and all highly liquid investments with maturities of three months or less that are easily transferable to cash and without diminution of principal to be cash and cash equivalents.

(d) Investment Securities

The Company classifies its securities into one of the following three categories; trading, held-to-maturity, or other securities. Based on this classification system, all of the Company's securities are classified as other securities and included in "other assets" as "investment securities".

Other securities with a market value are principally carried at market value. The difference between the acquisition cost and the carrying value of other securities, including unrealized gains and losses, is recognized in "Other securities valuation difference" in "Shareholders' equity". Other securities without market value are principally carried at cost. The cost of other securities sold is principally computed based on the moving average-method.

(e) Inventories

Inventories of the Company and domestic subsidiaries are stated at cost, determined by the moving-average method, adjusted for any substantial and permanent decline in value. Inventories of foreign subsidiaries are stated at the lower of cost (principally first in, first out) or market (net realizable value).

(f) Property and Equipment

Property and equipment are stated at cost. Depreciation is computed principally under the declining-balance method for assets held by the Company and domestic subsidiaries at rates based on following estimated useful lives.

Amusement machines and facilities	3–15 years

Depreciation is computed under the straight-line method for assets held by foreign subsidiaries at rates based on following estimated useful lives.

Amusement machines and facilities	2–7 years

(g) Goodwill

Goodwill represents the excess of the purchase price over the fair market value of net assets acquired in business combinations. Goodwill incurred by foreign subsidiaries is amortized in conformity with accounting principles and practices generally accepted in the country of incorporation.

(h) Research and Development Expenses

Research and development expenses are charged to income as selling, general and administrative expenses of the period in which they are incurred. When the management of the Company indicates its intention to produce and market a product, related research and development expenses are accounted for as production costs of the product.

Effective April 1, 2002, the foreign subsidiaries changed its method of accounting for development cost from the way charged to income as selling, general and administrative expenses of the period in which they are incurred to the way accounted for as production costs of the product when the management of the Company indicates its intention to produce and market a product. This change was made in order to unify the accounting method between parent company and subsidiaries with the result that significance of production cost in the foreign subsidiaries has been increased recently and the cost control system in the foreign subsidiaries has been improved. As a result of this change, cost of sales increased by ¥458 million (U.S.$3,865 thousand), selling, general and administrative expenses decreased by ¥948 million (U.S.$8,000 thousand), and operating income, income before income taxes and minority interest increased by ¥489 million (U.S.$4,127 thousand), respectively.

(i) Retirement Benefits

The Company and its domestic subsidiaries have adopted "Accounting Standard for Retirement Benefits" issued by the Business Accounting Deliberation Council. Under this standard, allowance for retirement and severance benefits for employees is provided based on the estimated retirement benefit obligation and the pension assets.

Actuarial gains and losses are amortized using the straight-line method in the year following the year in which the gain or loss is recognized, over the estimated average remaining service years of employees. Most foreign subsidiaries have various retirement plans, principally defined contribution plans, covering substantially all of their employees.

While the Company has no legal obligation, it is customary practice in Japan to make lump-sum payments to directors or statutory auditors upon retirement, with the approval of shareholders at the annual shareholders' meeting. According to the Company's established guidelines, the amount of such allowance is computed based upon payment factors determined by position and length of service as director or statutory auditor. Allowance for retirement benefits for directors and statutory auditors required under the plan has been provided at an estimated amount of ¥1,984 million and ¥2,224 million (U.S.$18,768 thousand) at March 31, 2002 and 2003, respectively, and is included in "Other long-term liabilities".

(j) Income Taxes

Deferred tax assets and liabilities have been recognized in the consolidated financial statements for the years ended March 31, 2002 and 2003 with respect to the differences between the financial reporting and tax bases of assets and liabilities, measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(k) Net Income and Cash Dividends per Share

In computing primary net income per share, the weighted-average number of shares of common stock outstanding during each year has been used.

The computation of fully diluted net income per share reflects the effect of common shares contingently issuable upon the conversion of convertible bonds as if such bonds had been converted at the beginning of the year or at the time of issue in the case of newly issued bonds after giving effect to the elimination of interest expenses, less income tax effect, applicable to the convertible bonds.

Effective April 1, 2002, the Company adopted the new accounting standard for earnings per share ("Accounting Standard for Earnings Per Share" and "Implementation Guidance on Accounting Standard for Earnings Per Share", Accounting Standards Board of Japan, September 25, 2002). The effect of this change is immaterial.

Cash dividends per share represent dividends declared for the respective year.

(l) Consolidated Statements of Cash Flow

Acquisition of amusement machines and facilities and proceeds on sale of used amusement machines and facilities had been categorized in capital expenditure and proceeds from sales of property, plant and equipment in Cash flows from investing activities. From April 1, 2002, these items were stated in acquisition of amusement of machines and facilities and other, net in Cash flows from operating activities. This change was made in order to state its operating activity more clearly with the result that amusement machines and facilities directly provide services for the customers and acquisition and sale of those machines and facilities is repeated every year. As a result, Cash flows from operating activities decreased by ¥7,162 million (U.S.$60,438 thousand) and Cash flows from investing activities increased by same amount compared with previous method. However, no impact was given to net increase in cash and cash equivalents.

(m) Reclassifications

Certain reclassifications have been made to the prior years' consolidated financial statements to conform to the presentation used for the year ended March 31, 2003.

2. U.S. Dollar Amounts

The financial statements presented herein are expressed in yen and, solely for the convenience of the reader, have been translated into United States dollars at the rate of ¥118.5=U.S.$1, the approximate exchange rate at June 21, 2003.

This translation should not be construed as a representation that the amounts shown could be converted into U.S. dollars at that rate.

3. Cash and Cash Equivalents

A reconciliation of the cash per consolidated balance sheets and cash and cash equivalents per statements of cash flows is as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Cash	¥25,319	¥36,219	$305,646
Time deposits with maturities greater than three months	(79)	(141)	(1,190)
Cash and cash equivalents	¥25,240	¥36,078	$304,456

4. Investment Securities

The acquisition cost, carrying amount (market value) and gross unrealized holding gain and loss for other securities with a market value are summarized as follows:

	Millions of yen			
	Acquisition cost	Gross unrealized holding gain	Gross unrealized holding loss	Carrying amount (Market value)
2002:				
Other securities:				
Equity securities	¥ 516	¥26	¥ 50	¥492
Other	519	–	189	330
	¥1,035	¥26	¥239	¥822
2003:				
Other securities:				
Equity securities	¥ 411	¥34	¥ 97	¥348
Other	286	–	48	238
	¥ 697	¥34	¥145	¥586

	Thousands of U.S. dollars			
	Acquisition cost	Gross unrealized holding gain	Gross unrealized holding loss	Carrying amount (Market value)
2003:				
Other securities:				
Equity securities	$3,468	$287	$ 819	$2,936
Other	2,414	–	405	2,009
	$5,882	$287	$1,224	$4,945

The following is a summary of non-marketable securities:

	Carrying amount	
	Millions of yen	Thousands of U.S. dollars
2002:		
Other securities:		
Equity securities	¥365	$3,080
2003:		
Other securities:		
Equity securities	¥213	$1,797

Investments in non-consolidated subsidiaries and affiliates, which are included in "Investment securities, are ¥314 million and ¥295 million (U.S.$2,489 thousand) at March 31, 2002 and 2003, respectively.

Proceeds, gross realized gains and losses from the sales of other securities in the year ended March 31, 2002 and 2003 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Proceeds	¥21	¥301	$2,540
Gross realized gains	¥ 4	¥231	$1,949
Gross realized losses	¥ –	¥ 4	$ 34

5. Inventories

Inventories at March 31, 2002 and 2003 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Merchandise	¥ 1,236	¥ 1,349	$ 11,384
Products	1,765	1,799	15,181
Raw materials	1,458	1,430	12,068
Work in process	7,201	8,177	69,004
Supplies	844	727	6,135
	¥12,504	¥13,482	$113,772

6. Leasehold Deposits

Leasehold deposits at March 31, 2002 and 2003 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Deposits for amusement facility operations and restaurant operations	¥22,672	¥20,232	$170,734
Deposits for office space	1,288	1,365	11,519
Other deposits	4,314	4,490	37,890
	¥28,274	¥26,087	$220,143

Leasehold deposits do not bear interest and are generally refundable when the lease is terminated.

The Company conducts amusement facility operations and restaurant operations on properties leased from lessors under long-term lease contracts. Lease expenses for amusement facility operations and restaurant operations for the years ended March 31, 2002 and 2003 amounted to ¥19,956 million and ¥18,025 million (U.S.$152,111 thousand), respectively.

7. Long-term Debt

Long-term debt at March 31, 2002 and 2003 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
0.9% unsecured convertible bonds due September 30, 2003 convertible into common stock at ¥3,106 per share	¥ 7,178	¥ 7,178	$60,574
0.4% unsecured straight bonds	–	1,000	8,439
Bank loans	5,034	2,448	20,658
Other	–	550	4,641
	12,212	11,176	94,312
Current portion	(1,658)	(8,566)	(72,287)
	¥10,554	¥ 2,610	$22,025

For the benefit of the holders of the 0.9% convertible bonds, the Company has agreed that the aggregate amount of payments of cash dividends may not exceed ¥4,400 million (U.S.$37,131 thousand) plus the aggregate amount of net income of the Company.

The aggregate annual maturities of long-term debt outstanding at March 31, 2003 are as follows:

	Millions of yen	Thousands of U.S. dollars
2004	¥ 8,566	$72,287
2005	880	7,426
2006	1,099	9,274
2007	614	5,181
Later year	17	144
	¥11,176	$94,312

8. Employees' Retirement Benefits

The plan's funded status and amount recognized in the accompanying consolidated balance sheets at March 31, 2002 and 2003 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Retirement benefit obligation	¥4,959	¥5,697	$48,076
Plan assets at fair value	(2,866)	(2,899)	(24,464)
Retirement benefit obligation in excess of plan assets	2,093	2,798	23,612
Unrecognized actuarial loss	(876)	(1,579)	(13,325)
Allowance for employees' retirement benefits	¥1,217	¥1,219	$10,287

Net periodic benefit cost for the years ended March 31, 2002 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Service cost	¥443	¥458	$3,865
Interest cost on retirement benefit obligation	116	113	953
Estimated return on plan assets	(95)	(78)	(658)
Amortization of unrecognized actuarial loss	48	64	540
Net periodic cost	¥512	¥557	$4,700

The actuarial assumptions and basis for the calculation of retirement severance benefits are as follows:

	2002	2003
Method of benefit attribution	"benefit/year-of-service"	approach
Discount rate	2.6%	2.0%
Estimated rate of return on plan assets	3.1%	2.8%
Period of amortization of unrecognized actuarial gain or loss	Actuarial gains and losses are amortized using the straight-line method in the year following the year in which the gain or loss is recognized, over the estimated average remaining service years of employees.	

9. Income Taxes

The Company is subject to Japanese corporate, inhabitant and enterprise taxes based on income, which in aggregate resulted in a normal tax rate of approximately 42% in the years ended March 31, 2002 and 2003.

Income taxes of foreign consolidated subsidiaries are based on the tax rates applicable in their countries of incorporation.

The effective income tax rate reflected in the accompanying consolidated statements of income for the years ended March 31, 2002 and 2003 differs from the Japanese normal income tax rate primarily because of the effects of permanently non-deductible expenses.

A reconciliation of the Japanese normal income tax rate and the effective income tax rate as a percentage of income before income taxes for the years ended March 31, 2002 and 2003 is as follows:

	2002	2003
Japanese normal income tax rate	42.0%	42.0%
Increase (reduction) in income taxes resulting from		
Valuation allowance	(19.8)	1.8
Inhabitant tax per capita	6.7	2.7
Other	0.9	(0.2)
Effective income tax rate	29.8%	46.3%

The tax effect of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at March 31, 2002 and 2003 are presented below:

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Deferred tax assets:			
Depreciation and amortization	¥1,557	**¥1,888**	**$15,933**
Tax loss carryforward	2,080	**1,053**	**8,886**
Allowance for retirement benefits for directors and statutory auditors	830	**901**	**7,603**
Devaluation loss on inventories	417	**500**	**4,219**
Allowance for employees' retirement benefits	454	**454**	**3,831**
Devaluation loss on securities	1,391	**154**	**1,300**
Other	2,145	**1,073**	**9,055**
Total gross deferred tax assets	8,874	**6,023**	**50,827**
Valuation allowance	(747)	**(366)**	**(3,089)**
Total net deferred tax assets	8,127	**5,657**	**47,738**
Deferred tax liabilities:			
Revaluation of property and equipment	(57)	**(57)**	**(481)**
Other	(51)	**(54)**	**(455)**
Total gross deferred tax liabilities	(108)	**(111)**	**(936)**
Net deferred tax assets	¥8,019	**¥5,546**	**$46,802**

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Deferred tax assets–current	¥2,522	**¥1,114**	**$ 9,401**
Deferred tax assets–non current	5,605	**4,543**	**38,337**
Deferred tax liabilities–current (included in other current liabilities)	(46)	**(43)**	**(363)**
Deferred tax liabilities–non current (included in other long-term liabilities)	(62)	**(68)**	**(573)**
	¥8,019	**¥5,546**	**$46,802**

10. Shareholders' Equity

The Japanese Commercial Code provides that an amount equal to at least 10% of appropriations paid in cash be appropriated as a legal reserve until the aggregate amount of additional paid-in capital and legal reserve equals 25% of common stock. The legal reserve of Namco Limited was ¥1,435 million (U.S.$12,110 thousand) as of March 31, 2003 and 2002, which was included in retained earnings.

Of the total amount of additional paid-in capital and legal reserve, ¥6,842 million (U.S.$57,738 thousand) representing 25% of common stock at March 31, 2003 is not available for dividends but may be used to reduce a deficit or may be transferred to common stock.

Cash dividends, directors' and statutory auditors' bonuses and appropriations to the legal reserve charged to retained earnings during the years ended March 31, 2002 and 2003 represent dividends and bonuses paid out during each period and the related appropriations to the legal reserve.

The accompanying consolidated financial statements do not include any provision for a dividend of ¥15 per share aggregating ¥826 million (U.S.$6,970 thousand) and bonuses to directors and statutory auditors aggregating ¥130 million (U.S.$1,097 thousand) declared in June 2003.

11. Research and Development Expenses

The total amount of expenses of the research and development department for the years ended March 31, 2002 and 2003 amounted to ¥15,655 million and ¥14,581 million (U.S.$123,046 thousand), respectively. ¥6,544 million and ¥5,710 million (U.S.$48,185 thousand) were charged to selling, general and administrative expenses in 2002 and 2003, respectively.

12. Other Expenses

The composition of other expenses–other for the years ended March 31, 2002 and 2003 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Devaluation loss on securities	¥ 763	**¥ 429**	**$ 3,620**
Foreign exchange loss	55	**100**	**844**
Amortization of goodwill	293	**24**	**203**
Impairment loss on goodwill	578	**17**	**144**
Loss on disposal of property and equipment	171	**161**	**1,359**
Provision for doubtful accounts in connection with other assets	584	**135**	**1,139**
Additional retirement payments	–	**162**	**1,367**
Devaluation loss on property and equipment	89	**467**	**3,941**
Devaluation loss on inventories	–	**347**	**2,928**
Other	858	**586**	**4,945**
	¥3,391	**¥2,428**	**$20,490**

13. Contingent Liabilities

At March 31, 2002 and 2003 contingent liabilities for loans guaranteed by the Company amounted to ¥12 million and ¥8 million (U.S.$68 thousand), respectively.

It is common practice in Japan for companies, in the ordinary course of business, to receive promissory notes in the settlement of trade accounts receivable and to subsequently discount such notes at banks. At March 31,2002 and 2003, the Company was contingently liable with respect to trade notes receivable discounted in the amounts of ¥31 million and ¥18 million (U.S.$152 thousand), respectively. Notes discounted are removed from the balance sheets.

In the opinion of management of the Company, it is not anticipated that any substantial loss will result from these contingencies.

14. Segment Information

(a) Business Segment Information

The Company and its subsidiaries operate in six business segments, as indicated below.

Certain corporate administrative expenses have not been allocated to segments due to the nature of the expense.

	Millions of yen							
	Business segments							
	Amusement Facility Operations	Coin-operated Game Machines	Home Videogame Software	Restaurant Operations	Movies and Graphics	Other	Elimination or Corporate Items	Consolidated
2002:								
Net sales to Customers	¥77,181	¥18,291	¥35,520	¥4,229	¥ 9,903	¥ 7,012	¥ –	¥152,136
Intersegment sales	256	288	1	93	13	164	(815)*	–
Total	77,437	18,579	35,521	4,322	9,916	7,176	(815)	152,136
Operating expenses	75,350	17,085	27,771	4,387	10,066	8,550	2,794	146,003
Operating income	2,087	1,494	7,750	(65)	(150)	(1,374)	(3,609)**	6,133
Identifiable assets	55,688	12,273	21,893	2,901	8,956	12,867	29,562***	144,140
Depreciation and amortization	11,088	521	621	99	349	1,326	81	14,085
Capital expenditure	9,248	306	232	457	459	947	294	11,943
2003:								
Net sales to Customers	**¥75,900**	**¥16,255**	**¥42,476**	**¥3,827**	**¥10,132**	**¥ 6,187**	**¥ –**	**¥154,777**
Intersegment sales	**259**	**353**	**–**	**167**	**212**	**381**	**(1,372)***	**–**
Total	**76,159**	**16,608**	**42,476**	**3,994**	**10,344**	**6,568**	**(1,372)**	**154,777**
Operating expenses	**71,385**	**15,427**	**33,279**	**3,960**	**10,755**	**7,591**	**2,910**	**145,307**
Operating income	**4,774**	**1,181**	**9,197**	**34**	**(411)**	**(1,023)**	**(4,282)****	**9,470**
Identifiable assets	**52,691**	**12,188**	**25,351**	**3,135**	**9,876**	**10,700**	**29,273*****	**143,214**
Depreciation and amortization	**8,865**	**216**	**948**	**132**	**335**	**622**	**109**	**11,227**
Capital expenditure	**7,999**	**131**	**1,082**	**335**	**247**	**201**	**381**	**10,376**

	Thousands of dollars							
	Business segments							
	Amusement Facility Operations	Coin-operated Game Machines	Home Videogame Software	Restaurant Operations	Movies and Graphics	Other	Elimination or Corporate Items	Consolidated
2003:								
Net sales to Customers	**$640,506**	**$137,173**	**$358,447**	**$32,296**	**$85,502**	**$52,211**	**$ –**	**$1,306,135**
Intersegment sales	**2,186**	**2,979**	**–**	**1,409**	**1,789**	**3,215**	**(11,578)***	**–**
Total	**642,692**	**140,152**	**358,447**	**33,705**	**87,291**	**55,426**	**(11,578)**	**1,306,135**
Operating expenses	**602,405**	**130,186**	**280,835**	**33,418**	**90,759**	**64,059**	**24,557**	**1,226,219**
Operating income	**40,287**	**9,966**	**77,612**	**287**	**(3,468)**	**(8,633)**	**(36,135)****	**79,916**
Identifiable assets	**444,650**	**102,852**	**213,932**	**26,456**	**83,342**	**90,295**	**247,030*****	**1,208,557**
Depreciation and amortization	**74,810**	**1,823**	**8,000**	**1,114**	**2,827**	**5,249**	**920**	**94,743**
Capital expenditure	**67,502**	**1,106**	**9,131**	**2,827**	**2,084**	**1,696**	**3,215**	**87,561**

* Elimination of intersegment sales.

** Includes unallocated administrative expenses of ¥3,838 million in 2002 and ¥4,176 million (U.S.$35,241 thousand) in 2003.

*** Assets included in Elimination or Corporate Items are primarily surplus money (cash and deposits) of the Company, long-term investment fund (investment securities) and other assets in administration department amounted to ¥35,800 million in 2002 and ¥35,109 million (U.S.$296,278 thousand) in 2003.

(b) Geographical Segment Information

Summarized data for the Companies' operations (sales within Japan and outside Japan) is as follows:

	Millions of yen					
	Japan	North America	Europe	Asia	Elimination or Corporate Items	Consolidated
2002:						
Net sales to customers	¥111,015	¥35,030	¥5,026	¥1,065	¥ –	¥152,136
Intersegment sales	2,367	63	6	0	(2,436)*	–
Total	113,382	35,093	5,032	1,065	(2,436)	152,136
Operating expenses	103,816	34,682	5,068	1,243	1,194	146,003
Operating income	9,566	411	(36)	(178)	(3,630)**	6,133
Identifiable assets	86,486	21,388	5,861	402	30,003***	144,140
2003:						
Net sales to customers	**¥115,344**	**¥33,364**	**¥5,442**	**¥ 627**	**¥ –**	**¥154,777**
Intersegment sales	**2,221**	**104**	**6**	**7**	**(2,338)***	**–**
Total	**117,565**	**33,468**	**5,448**	**634**	**(2,338)**	**154,777**
Operating expenses	**105,567**	**31,531**	**5,464**	**667**	**2,078**	**145,307**
Operating income	**11,998**	**1,937**	**(16)**	**(33)**	**(4,416)****	**9,470**
Identifiable assets	**87,128**	**20,395**	**5,965**	**177**	**29,549*****	**143,214**

	Thousands of dollars					
	Japan	North America	Europe	Asia	Elimination or Corporate Items	Consolidated
2003:						
Net sales to customers	**$973,367**	**$281,553**	**$45,924**	**$5,291**	**$ –**	**$1,306,135**
Intersegment sales	**18,743**	**877**	**51**	**59**	**(19,730)***	**–**
Total	**992,110**	**282,430**	**45,975**	**5,350**	**(19,730)**	**1,306,135**
Operating expenses	**890,861**	**266,084**	**46,110**	**5,628**	**17,536**	**1,226,219**
Operating income	**101,249**	**16,346**	**(135)**	**(278)**	**(37,266)****	**79,916**
Identifiable assets	**735,257**	**172,110**	**50,337**	**1,494**	**249,359*****	**1,208,557**

* Elimination of intersegment sales.
** Includes unallocated administrative expenses of ¥3,838 million in 2002 and ¥4,176 million (U.S.$35,241 thousand) in 2003.
*** Assets included in Elimination or Corporate Items are primarily surplus money (cash and deposits) of the Company, long-term investment fund (investment securities) and other assets in administration department amounted to ¥35,800 million in 2002 and ¥35,109 million (U.S.$296,278 thousand) in 2003.

(c) Overseas Sales Information

Overseas sales of the Company and its subsidiaries for the years ended March 31, 2002 and 2003 amounted to ¥48,853 million (32.1% of consolidated net sales) and ¥48,979 million (U.S.$413,325 thousand, 31.6% of consolidated net sales), respectively.

Independent Auditors' Report

Shin Nihon & Co.

The Board of Directors
Namco Limited

We have audited the accompanying consolidated balance sheets of Namco Limited and consolidated subsidiaries as of March 31, 2003 and 2002, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards, procedures and practices generally accepted and applied in Japan. Those standards, procedures and practices require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Namco Limited and consolidated subsidiaries at March 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan.

As discussed in Notes 1 (h) and (l) to the Consolidated Financial Statements, the Company changed its method of development cost in the foreign subsidiaries and the category of acquisition of amusement machines and facilities and proceeds on sale of used amusement machines and facilities in the Consolidated Statements of Cash Flows in the year beginning April 1, 2002.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2003 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2 to the consolidated financial statements.

Shin Nihon & Co.

June 23, 2003

See Note 1 to the consolidated financial statements which explains the basis of preparation of the consolidated financial statements of Namco Limited and consolidated subsidiaries under Japanese accounting principles and practices.

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(As of June 30, 2003)

Corporate Data

Corporate Name
NAMCO LIMITED

Date of Establishment
June 1, 1955

Capital
¥27,369 million

Common stock
Authorized–109,685,421 shares
Issued–55,087,618 shares

Number of Shareholders
19,483

Number of Employees
3,902

Listing of the Company's Shares
First Section of the Tokyo Stock Exchange

Independent Certified Public Accountants
Shin Nihon & Co.

Directors and Statutory Auditors

Chairman
Masaya Nakamura

President and Chief Executive Officer
Kyushiro Takagi*

Executive Vice President
Akiyoshi Sarukawa*

Managing Directors
Masahiro Tachibana*
Keiji Tanaka
Shukuo Ishikawa

Director
Koichiro Homma

Director and Advisor
Ryuji Hashiguchi
(The above directors serve as division executives)

Corporate Auditors
Shigeru Yamada
Toshinori Hayashida
Mitsuo Ichikawa
Osamu Sudo

Senior Executive Officers
Jun Higashi
Yoichi Haraguchi

Executive Officers
Shigeichi Ishimura
Noboru Suzuki
Keishi Degawa

*Representative Directors
(As of June 23, 2003)

Amusement to Entertainment

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